Commonwealth of Massachusetts
Department of Telecommunications and Energy

Costs that Should be Included in Default Service Rates	)))))	D.T.E. 03-88 A-F

Comments of
Constellation NewEnergy, Inc. and
Dominion Retail, Inc.

I. INTRODUCTION

Constellation NewEnergy, Inc. ("Constellation") and Dominion Retail, Inc. ("Dominion") submit these comments regarding the Settlement Agreement filed by Boston Edison Company, Commonwealth Electric Company, and Cambridge Electric Light Company ("NSTAR" or the "NSTAR Companies"); Fitchburg Gas & Electric Company; Massachusetts Electric Company and Nantucket Electric Company; Western Massachusetts Electric Company (collectively the "Utilities"); the Attorney General; and Associated Industries of Massachusetts. Constellation and Dominion have not signed that agreement, but we do not oppose it.

These comments are focused on the issue of bad debt costs. We ask that, for future filings, the NSTAR Companies be directed to calculate the actual bad debt costs of their default service customers, rather than relying on an allocation method. If the NSTAR Companies are unable to calculate the actual bad debt, we ask that, for future filings, they be directed to allocate bad debt costs to default service customers based on the actual bad debt experience of the default service customers of Massachusetts Electric, rather than based on the bad debt experience of all NSTAR customers (whether or not they are on default service).

II. THE DEPARTMENT SHOULD DIRECT NSTAR TO TRACK THE ACTUAL BAD DEBT EXPERIENCE OF ITS DEFAULT SERVICE CUSTOMERS.

Bad debt costs are by far the largest issue in this proceeding. Of the $8,168,364 that the NSTAR Companies propose to include in default service rates, $7,925,131 or ***97%*** are attributable to bad debt. Settlement Agreement, Exhibit NSTAR-HCL-1.

However, despite the importance of bad debt costs, the bad debt figure submitted by the NSTAR Companies does not reflect the actual bad debt experience of their default service customers. Unlike the other distribution companies, the NSTAR Companies do not track the actual bad debt experience of their default service customers. Lacking the actual number, NSTAR created a bad debt figure using an allocation method. NSTAR allocated total bad debt costs to default service in proportion to the ratio of default service revenues to total revenues. Tr. 6 – 7.

In effect, the NSTAR method assumes that the bad debt experience of all customers is **the same.** However, the information produced by the other distribution companies, which actually track the bad debt experience of default service customers, is that the bad debt experience of default service customers is **actually quite different** from that of other customers.

The Department pointed this out quite clearly in the table which it included in IR-DTE-1-5. The table compares the ratio of default service bad debt to total company bad debt. It shows that the ratio is much higher for the other companies, which track actual bad debt experience, than it is for the NSTAR Companies, which created a bad debt figure using an allocation method. The Department's table is set forth below.

	Default Service Bad Debt	Total Company Bad Debt	Ratio
MECo	$4,342,386	$14,846,038	29.25%
Fitchburg	$109,000	$405,501	26.90%
BECo	$2,464,603	$14,467,987	17.03%
ComElec	$243,568	$3,153,888	7.72%
Cambridge	$91,890	$480,353	19.13%

The differences shown in the Department's table may have been muted somewhat by recent changes in the Utilities' filings. The table reflects the Utilities' initial filings, which focused on costs associated with default service customers only. With the imminent transfer of standard offer customers to default service, however, the Utilities have revised their filings to include costs associated with standard offer customers as well as default service customers. Settlement Agreement Appendices. The addition of large numbers of standard offer customers to the pool dilutes the effect of the poor bad debt experience of default service customers, and thus likely reduces the differences between the results of tracking actual bad debt and the NSTAR allocation method.[1]

Nonetheless, it remains important for NSTAR to get the bad debt figure right, rather than relying on allocation. As customers migrate to the competitive market over time, it is likely that the bad debt experience of default service customers will again become less like that of other customers, and that therefore NSTAR's allocation method will again significantly understate the bad debt experience of default service customers.

[1] The inclusion of costs associated with standard offer customers substantially changes the facts at issue in this proceeding. However, given that this change was made after the close of discovery and after the close of hearings, Constellation and Dominion have no way to fully explore its effect. As a result, we can only speculate.

Going forward, the Department should direct the NSTAR Companies to track the actual bad debt experience of their default service customers. As NSTAR's own witness testified, this would be "more accurate" than the allocation method NSTAR used. Tr. 31.

In response to a Department record request regarding the costs of modifying the NSTAR billing system to track the actual bad debt experience of Default Service customers, NSTAR responded that the required changes would cost in excess of $100,000. RR-DTE-4. However, the response is unclear. It appears to address the cost of querying the current system regarding historic bad debt as opposed to the cost of modifying the system to track bad debt going forward. Moreover, the response was of course prepared under the time pressure of an ongoing proceeding. NSTAR now has at least 12 months until its next default service cost filing. It is certainly possible that, with that additional time, NSTAR's IT department could devise a less expensive way of tracking bad debt.

If NSTAR is unable to track the actual bad debt experience of its default service customers, it should be directed to allocate bad debt to default service based on the actual experience of another company that does track the actual experience such as Massachusetts Electric.

NSTAR has resisted this approach, arguing that the experience of Massachusetts Electric has "no relevance" to NSTAR. IR-CNE-1-1. We acknowledge that calculating NSTAR's costs based on Massachusetts Electric's experience would be imperfect. However, it would be better than the alternative.

If NSTAR does not track the actual bad debt experience of its default service customers, then it will have to allocate bad debt costs to default service based on an assumption that the bad debt experience of its default service customers is **like something else.** The two choices for the "something else" are: (a) the bad debt experience of all of NSTAR's customers; or (b) the bad debt experience of another company's default service customers.

We know that option (a) is a poor choice. The evidence from the companies that track bad debt experience by service type is that the bad debt experience of default service customers differs significantly from the bad debt experience of other customers.

Option (b) is also imperfect. After all, NSTAR is not Massachusetts Electric. However, the two companies are not that different either. They are both in Massachusetts, are roughly the same size, and serve adjacent service territories. While imperfect, the bad debt experience of Massachusetts Electric default service customers is the best available proxy for the bad debt experience of NSTAR default service customers.

III. CONCLUSION

Accordingly, Constellation and Dominion respectfully request that, for future filings, the Department direct NSTAR to either track the actual bad debt experience of its default service customers or to allocate bad debt costs to default service based on the actual bad debt experience of Massachusetts Electric's default service customers.

Respectfully submitted,

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